surveys of consumers UNIVERSITY OF MICHIGAN

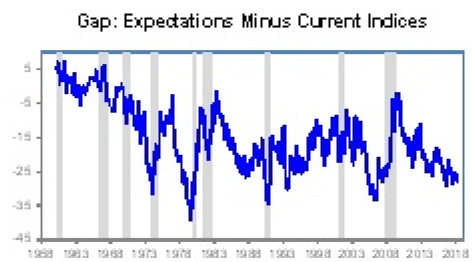
Monitoring trends for over 70 years

Subject: April 2018 survey results April 27, 2018

From: Richard Curtin, Director

Consumer sentiment improved slightly in the 2nd half of the month, shrinking the small overall decline in April. The final April figure was nearly identical to its 2018 average (98.9)—which was higher than any other yearly average since 107.6 was recorded in 2000 (which was the highest yearly average in more than a half century). Tax reform and trade policies continue to spark spontaneous comments, with a positive balance of opinion on the tax reform legislation (16% favorable versus 5% unfavorable) and a negative balance of opinion for the trade tariffs (1% positive versus 24% negative). The difference in the Expectation Index was still stark: positive views on tax reform had Index values 28 points higher than those who made no mention of the tax reform legislation, and negative views on tariffs had Index values that were 28 points lower than those who didn't spontaneously mention trade. Aside from the impact of Trump's tax and tariff policies, the best simple summary of the current state of consumer confidence is that the economy is "as good as it gets." While consumers do not anticipate an economic downturn anytime soon, the long expansion has made consumers (and economists) somewhat apprehensive about future trends. Overall, the data are consistent with a growth rate of 2.7% in real personal consumption in the year ahead.

Cyclical turning points are reflected by a widening gap between the Current Conditions Index and the Expectations Index. During expansions, evaluations of the current economy become increasingly favorable, while favorable expectations begin to fade in the late phase of the expansion; alternatively, a growing gap in the opposite direction signals an economic upturn. The gap last reached cyclical extremes in 2006, signaling an impending recession, and in 2009 it signaled the start of a recovery. The gap has widened in the past few years, with the Current Index averaging 27.0 points higher than the Expectations Index since the start of 2018, barely above the 25.9 in 2016-17. While gap is still above previous lows, it does represent the basis for growing economic apprehensions as the expansion approaches an all-time record.



A year-ahead inflation rate of 2.7% was expected in April, just below last month's 2.8% and equal to the prior three months. While the year-ahead expected inflation rate is above last year's 2.5%, there is scant evidence that consumers now anticipate rising inflationary pressures. Moreover, consumers have not changed their expectations about the longer term inflation rate in the past four months, which remained firmly anchored at 2.5%. In addition, income expectations have remained at modest levels: an increase of 2.2% was expected in April, matching February's level and barely above the 2.1% recorded three and six months ago. To be sure, those under age 45 anticipated wage gains of 3.3%, but this was well below last year's 4.4%.

Although interest rates were expected to increase by three-in-four consumers in April, that was somewhat below the four-in-five who expected rate hikes in March. Just 29% anticipated better economic conditions in the year ahead, down from last month's 33% and last year's 42%. Importantly, half of all consumers expected an uninterrupted expansion during the next five years—an important reason to anticipate that the large Expectations-Current gap has yet to reach its trough. The national unemployment rate was anticipated to edge downward, although most consumers expected it would remain largely unchanged.

Consumers remained upbeat about their personal finances, with an average of half of all households reporting improved finances during the past year. Recent net income gains were reported by 25%, up from last April's 18%. Net wealth gains were more frequent, with gains reported by 26% of households with incomes in the top third. For the year ahead, just 9% expected their finances would worsen, while 40% expected gains, equal to the average recorded in the past twelve months.

Home buying plans improved due to the belief that prices and mortgage rates would only be higher in the future, voiced by a combined 31%. Moreover, the value of homes are no longer anticipated to rise faster than inflation over the next five years. The expected inflation rate was identical to the expected long term trend in home prices: both 2.5% for the past three months.

	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018
Index of Consumer Sentiment	97.0	97.1	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8
Current Economic Conditions	112.7	111.7	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9
Index of Consumer Expectations	87.0	87.7	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4
Index Components													
Personal Finances—Current	126	126	131	132	130	128	135	127	127	126	133	142	133
Personal Finances—Expected	131	129	132	122	134	133	132	132	127	131	133	132	131
Economic Outlook—12 Months	113	119	110	111	119	110	123	123	119	121	124	120	113
Economic Outlook—5 Years	106	105	95	89	100	97	110	103	93	95	105	105	111
Buying Conditions—Durables	166	164	161	163	158	162	168	168	168	160	166	173	165